MARQUETTE BUSINESS REVIEW

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MANPOWER - OUR MAJOR PROBLEM

by

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There is no question but what manpower is a major personnel problem today, but more than that, manpower is also a major problem for business and industry generally, and will continue to be a major problem for some time to come. We hear frequently that the manpower market is bound to ease, that it couldn't get worse, but the facts show only too clearly that the manpower market will get much worse before it gets better.

In 1956, the gross national product for the United States approached 425 billion dollars. Every major economic estimate of the productivity over the next ten-year period indicates that this figure will increase to approximately 550 to 600 billion dollars by 1965, or an increase of at least 50 per cent, a 5 per cent per year average. If it is recalled that usually about 80 per cent of the gain is made by approximately 20 per cent of the companies, it is evident that some companies must make visionary-beyond-imagination plans to cope with fantastic increases in productivity. Their need for manpower is almost beyond comprehension.

Even companies making no special plans will have to increase their productivity at least 5 per cent per year just to stay with the industry.

This means we would need an additional manpower pool of about 3 million workers per year for the next ten years if productivity per worker cannot be improved through automation or some other means.

Unfortunately, the most optimistic estimate of the available manpower for the next ten years is in the neighborhood of about one million workers per year — and half of these will be women; half of the remainder will be in the 14 to 24 age group. This is only one-third of what we may need unless we can improve our productivity per man hour drastically.

The reason for this shortage lies in the fact that we will be reaping the return of the low birthrate of the 1930's and early 40's. This means that the 21-year-olds coming on the labor market will not substantially start increasing until 1965 or thereabouts. In the meantime, there will also be increasing pressure to reduce the hours in the work week.

This is why manpower is more than a personnel problem — it is an industry and business management problem. Every top executive needs to realize what is going to happen, and must take steps to counteract the obvious effects on his operation. Every personnel

man has a real responsibility to alert his top management to this problem so that the company can utilize all skill and technique necessary to avoid getting caught with an insufficient, inadequate or poorly trained work force. Scarcities will exist in all areas — secretarial and clerical people, managers, technicians and others.

Now, what can we do about this? Should we ask the Federal Government to pass more laws? Should we set up State Commissions to study the problem? Should we ask our professional associations to do something about it? Or should we tackle the problem ourselves, each in his own individual company?

While arguments can be advanced for each of these suggestions, it seems that the most satisfactory solution is in the hands of the companies themselves. It consists of recognizing what people want and then trying to satisfy their wants in every possible way consistent with a company's objectives.

Men want to work where they are needed. They develop where the climate is right. They do not develop if the climate is unfavorable. The same is true of all growing things.

To the question, "Could you grow an orange tree in Colorado?", the answer would have to be "No," because the winter is too cold, the soil is not right, the climate generally is not favorable. Yet, an orange tree could grow in Colorado, if it were potted in the right kind of soil and were properly fertilized, if the bugs were kept off it, and if the temperature were maintained at a uniformly proper level in a greenhouse.

The same is true for men. Given the right kind of climate, they will grow and develop to the fullest extent of their capacities. Given a poor climate, they will retire into their shells and do only what they have to.

It would be well to ask just what constitutes a healthy growing climate for the development of human powers and capacities. The following eighteen elements seem to be fundamental:

1. Write out sound company objectives and principles of doing business.

2. Maintain a continuous, careful analysis of present and future organizational manpower needs, with consideration of the relative merits of line-staff versus administrative functional, or flat versus pyramid organizations.

3. Spell out job requirements for each job in writing, noting especially the knowledge and ability requirements and organizational relationships.

4. Forecast manpower turnover in terms of promotion, demotion, transfer, retirement, resignation, deaths, additional positions, leaves of absence, etc.

5. Set up a manpower pool with the proper number of "spares"

in training. You can expect one out of five or six management positions to be vacant each year.

6. Develop a careful "rejection" process with sufficient hurdles to eliminate unfit candidates for selection.

7. Establish a sound appraisal program for regular evaluations of employee performance for two main purposes:

   (a) Stimulation and motivation for better performance;

   (b) Salary and wage purposes.

8. Keep a forty-year system of records complete enough to find talents, abilities and knowledges when needed within the organization.

9. Encourage supervisors who can train, develop, stimulate and create interest and enthusiasm and a sense of responsibility.

10. Develop a rotation program to improve decision-making and "general management" skills.

11. Create opportunities for recognition through unusual special assignments on committees, projects, etc.

12. Provide a nice place to work — safe and pleasant.

13. Establish a sound salary and wage program, controlled by averages and administered at the lowest possible supervisory level to reward superior performance.

14. Follow a consistent policy on promotions, transfers and placement of people.

15. Make a continuous effort toward work simplification and authorize a responsible department to process ideas.

16. Establish a planned communications program to get information in all directions as quickly as possible.

17. Achieve and maintain sound, fair and consistent labor relations.

18. Make a periodic audit of results, reported to employees on a "How'm I doin'?" basis.

With proper climate you need not overcrop — you can use wisely and fully the human talents you already have. Even with proper climate, however, the team needs good leaders and good coaches — and this involves both managers and personnel directors.

Too many companies today have managers who are insecure, incompetent, and poor team members. The days of the lone-wolf type of genius are numbered in modern business, where the team concept is becoming more predominant.

Is the personnel manager a professional or an amateur in his coaching role? An amateur personnel director is one who just "loves" people, tries to maintain the status quo, doesn't make decisions, is

a "desk" man, scurries around to deal with individual problems, does not know personnel technique, is afraid to experiment, wants to see first what the next company is doing, and is always busy taking on tasks no one else wants to do.

A professional personnel man is a sound psychologist, thoroughly trained in all the modern personnel procedures and practices. He knows business operations thoroughly, does long range personnel planning, establishes policies for equitable personnel handling by supervisors throughout the organization, and does not usurp this responsibility toward their personnel problems, but rather gives them every assistance needed. He anticipates problems, institutes research to cope with new problems and serves as a trouble shooter for top management on all personnel difficulties.

As long as we need people to run businesses, manpower problems will be with us; but as proficiency grows in professional personnel administration and the climate becomes more favorable to people's growth, personnel managers will find themselves valuable members of the top management team, working together to compete profitably for the benefit of all.

SURVEY ON SUPERVISORY TRAINING WITHIN AMERICAN INDUSTRY

A SUMMARY OF FINDINGS

by

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During 1955 and 1956 companies throughout the United States were queried by letter, through questionnaire, telephone calls and personal visits to attempt to ascertain the status of their supervisory training and to secure their views as to what should be included in a model program in human relations and basic supervision.

It is estimated that the responding companies employ about two and one-half million employees. Many of the questionnaires were returned with long letters of explanation; some companies attached copies of programs and materials. All of the comments, materials and suggestions were helpful and showed much thought and careful consideration. The cooperation and interest expressed by participating companies was gratifying.

To report the complete findings would be an exceedingly difficult, if not impossible, task. There are, however, some general findings that can be shared. Most companies are already doing something in this important area of training; others are contemplating doing something in the immediate future. Much of this training is designed for top management and supervisory personnel and uses the small group lecture-discussion method. The trend is toward 26 to 34 hours of meetings with the view expressed that very short programs in this area are not effective; and that such training should be a continuous process.

Many companies expressed the belief that this is one of the most important areas of training and is also the most difficult in which to accomplish objectives. The difficulty, some companies said, is the reason that they have avoided training in this area until recently. Some companies having programs in operation expressed the belief that they were not too effective in accomplishing their objectives. There was, however, rather general agreement as to what should be covered in any "model program" that would be developed for use in a company to train their supervisors.

SUMMARY OF FINDINGS

	Absolutely Necessary	Necessary	Questionable
Individual Differences	60	25	3
Behavior and Its Causes	58	25	4

Attitudes	63	22	4
Frustration	31	36	19
Authority	37	34	11
Responsibility	49	26	8
Motivation	70	18	2
How to Change Attitudes	54	25	7
How to Change Behavior	51	26	11
Employee Selection	18	29	28
Employee Appraisal	38	25	17
Employee Orientation	20	40	17
Communications	54	28	1
Interviewing	22	41	19
Counseling	26	40	17
Employee Training	38	30	12
Discipline	32	39	10
Morale	48	29	4
Promoting Teamwork	46	26	2

RANK ORDER OF FINDINGS

Absolutely Necessary	Absolutely Necessary Plus Necessary
Motivation	Motivation
Attitudes	Attitudes
Individual Differences	Individual Differences
Behavior and Its Causes	Behavior and Its Causes
How to Change Attitudes	Communications
Communications	How to Change Attitudes
How to Change Behavior	How to Change Behavior
Responsibility	Morale
Morale	Responsibility
Teamwork	Authority
Training	Teamwork
Appraisal	Discipline
Authority	Training
Discipline	Frustration
Frustration	Counseling
Counseling	Interviewing
Interviewing	Appraisal
Orientation	Orientation
Selection	Selection

Space was provided for respondents to list other topics or subjects they thought should be included in such a program. Some respondents mentioned the importance of stressing the personnel skills the modern supervisor should possess. Repeatedly the idea of leadership and the group itself was mentioned — such things as the qualities and skills of leaders, group thinking, group actions and group relations. The idea of "self" was mentioned — understanding one's self, self-analysis and self-development were included. A number of people stressed the point that we should look to ourselves rather than other people for improvement in our relations with people.

SUMMARY

In summary most companies find that there is a great need for training in human relations and basic supervision. This training should be in the form of from 13 to 17 sessions (about 1¾ to 2 hours in length). It should avoid "big" words and psychological terms. The training should be divided into three broad areas — Understanding People, Understanding Self and Supervisory Skills. It should cover such things as Individual Differences, Behavior and Its Causes, Attitudes, Motivation and Frustration, Leadership and Groups (authority and responsibility), How to Get Along with People, and How to Promote Teamwork. In the personnel skills area, it should include Employee Selection, Appraisal, Orientation, Communication, Interviewing and Counseling, Employee Training and Development, Teamwork, Morale and Discipline.

MEASUREMENT OF ADVERTISING PERFORMANCE BASED ON READERSHIP DATA SUPPLIED BY DANIEL STARCH AND STAFF

by

William G. Pulver

Summary of a project completed under the direction of C. Brooks Smeeton, Professor and Director of the Department of Marketing of Marquette University, in partial fulfillment of requirements for the degree of Master of Business Administration.

During recent years, advertisers have placed greater emphasis on measuring the effectiveness of their presentations. Advertising costs, like other costs, are increasing. Furthermore, the dominant role of self-service retailing plus the extension of markets places a heavier and heavier burden on the shoulders of many advertisements. The survival of many business organizations depends on the effectiveness of their advertising.

The Importance of Readership

Among the measures of advertising effectiveness are those concerned with evaluating performance after the advertisement appears. These are called post evaluations and range from measurement of actual sales results to determination of advertising readership. There are presently three commercial organizations offering readership data. They include Readex, Inc., which uses the reader interest technique; Gallup-Robinson, who practice the aided recall method; and Daniel Starch and Staff, who employ the recognition method.

One author has stated that an advertisement can have any number of immediate purposes as its goal, but ultimately the purpose of any copy is to stimulate sales.[1] There is only one way it can satisfy this purpose. It must attract an audience and retain interest long enough to convey the message. The first task of any advertisement, therefore, is to arrest attention. Its success depends largely on the extent to which it capitalizes on the opportunity.[2]

1. Hepner, Harry W. *Effective Advertising*, 2nd ed. New York: McGraw-Hill Book Company, Inc. 1949, p. 532.

2. Bureau of Advertising. *Attention*. New York: American Newspaper Publisher's Association, 1941, p. 2.

The conclusion that readership is the sole criterion for an advertisement's success, however, is not entirely valid. Some advertisements can attract and retain a large audience, yet provide dismal sales results. Daniel Starch, perhaps the most noted researcher in the field, admits this fact. Yet, both Starch and others have demonstrated that readership is closely correlated to an advertisement's sales effectiveness.[3] The result is that advertisers are deeply concerned with readership, because it provides a valuable, although not entirely reliable, indicator of the sales generating power of their insertions.

The Starch Measurement of Advertising Readership

Daniel Starch was one of the first to offer advertisers readership data on a commercial scale. His service has gained such acceptance that in 1956 alone, the Starch organization performed readership studies on 39 general magazines, 25 business publications, plus a number of metropolitan newspapers. This included all issues for a majority of the general publications, and usually at least five issues of the business magazines. His reports are made available on either a subscription or single issue basis.

Readership results reported by the Starch organization depend on interviews with sample readers of the magazine in question. Starch tries to pattern his sample according to the circulation of the publication surveyed. This includes not only geographic region, but also occupational, family, marital, age groups over 18, and economic classes that are representative of the periodical's readers. From 100 to 200 interviews for each sex are conducted either in the home of the respondent or his place of business. Starch has found that major fluctuations in readership tend to level off at this sample size.[4]

Interviews are conducted a reasonable length of time after the magazine's sale date. In the case of the *Saturday Evening Post,* interviews begin three days after the magazine goes on sale and extend for seven days. This varies, however, with the publication surveyed.

Actual interviewing involves the recognition method. Three basic measurements result from Starch interviews. The first is called the "Noted" score. It tells what percentage of the respondents noticed a certain advertisement in a particular magazine. It does not necessarily mean that they knew what product was advertised. It merely tells that a certain percentage remembered seeing the advertisement.

The second Starch measurement is the "Seen Associated" score. It is the per cent of readers who not only noticed the advertisement, but also read a part of the copy clearly indicating the product or advertiser. A substantial drop from "Noted" to "Seen Associated" may mean that the attention stopping device was irrelevant.

3. Hepner, *op. cit.*, p. 665.

4. *Brief Outline of the Scope, Method, and Technique of The Starch Magazine Advertisement Readership Service.* Mamaroneck, New York: Daniel Starch and Staff, 1955, p. 4.

The final Starch score, "Read Most," tells what percentage of the respondents read 50 per cent or more of the written text of the advertisement.

Starch then presents two additional measures based on each advertisement's readership scores. The first is called "Readers per Dollar" and reflects the relationship between primary readers, circulation and the space cost of the advertisement. The second is Starch's "Cost Ratios" which shows the "Relationship between 'Readers per Dollar' for a specific advertisement and the corresponding median average 'Readers per Dollar' for all half page or larger advertisements in the same issue."[5] This score will fluctuate not only with a particular advertisement's readership, but also with average readership for all half page or larger advertisements in the issue. A "Cost Ratio" of 150 means that in terms of dollars expended for space, the advertisement did 50 per cent better than the average. It should be remembered that magazine space rates are not necessarily proportionate to circulation, nor are they necessarily scaled according to probable readership obtainable for particular space and color combinations. Neither do they consider reader interest in different product classifications. Therefore, the only truly valid comparison possible with either a "Readers per Dollar" score or the "Cost Ratios" is with advertisements of the same size, color combinations, from the same publication, and advertising the same type of product. This is also true of "Noted," "Seen Associated," and "Read Most" scores.

Few would conclude that readership data compiled by the Starch organization presents an exact replica of actual readership. The technique, sample size, design and interviewing method have all been criticized in the past.

A recent study by the Advertising Research Foundation attempted to evaluate printed advertising rating methods by duplicating the measurements of Starch, Gallup-Robinson and Readex for the May 5, 1955, issue of *Life* magazine.[6] It called itself the PARM study and was performed simultaneously with the studies of the three commercial services. Among the preliminary findings are:

1. The method of qualifying advertisement readers had little effect on advertisement ratings. Higher or lower readership scores may result within ratings, but this seems to have little effect on the rank of the ratings.

2. Each service appears to be utilizing a time period for its study of a publication that is suitable to its own methods.

3. Each method must carefully rotate the order in which the advertisements are shown. Although Starch claims to use such a system, some of the researchers felt it could be more carefully controlled in practice.

5. *Ibid.*, p. 9.

6. *A Study of Printed Advertising Rating Methods,* Vol. I. New York: Advertising Research Foundation, 1956, 1.

4. There appears to be little need for either Starch or Gallup-Robinson to devote too much time or effort to improving their samples along probability lines. Proportionately greater accuracy or reliability would not result from the increased cost.

5. In tests of each method's reproducibility, it was found that the highest coefficient of determination was 85 per cent between Starch's method and the PARM study that duplicated Starch's method.[7]

Sherwood Dodge, one of the principals involved in the study, stated that he would choose the Starch method for more useful ratings because, "It is reproducible, because it defines its methods and procedures more clearly, because it is practical in that it is not overly sensitive to such hard to control features as interviewer skill, and is simple enough as a memory test so that the size of the sample which can pass it is more likely to be representative of the readers of the publication."[8] He pointed out, however, that it is more susceptible to distortion through confusion, or even lying.

The conclusion, therefore, seems to be that although Starch's scores are certainly not without some distortion, they do represent the most accurate commercial readership service available to advertisers.

Indexes of Relative Readership

When Starch describes uses for his data, he makes one point very clear: His findings present only tools with which advertisers can build better advertisements. He cautions against taking scores for any one insertion and comparing them with another advertisement's readership performance. Rather, he recommends using the data primarily to establish trends of campaigns, or for use as a criterion to determine by analysis techniques that create high readership.[9]

The Need for Indexes of Relative Performance

Using the data as Starch prescribes, however, is not quite that simple. Different readership scores for two advertisements cannot be ascribed to different copy techniques alone. Several other variables complicate the picture. As mentioned earlier, the size of the advertisement, color, the media in which it is presented, and the reader interest in its product classification affect readership scores. The same is true of other variables. Comparisons based on absolute readership scores, therefore, do not present a realistic picture unless they are made between advertisements of the same product group, appearing in the same media, and possessing the same mechanical composition.

7. Dodge, Sherwood. *Facts and Fiction About Ad Ratings.* White Sulphur Springs, West Virginia, April 27, 1956. An address before the American Association of Advertising Agencies Annual Meeting, pp. 2-8.

8. *Ibid.*, p. 8.

9. *Ibid.*, pp. 14-15.

Two Methods for Computing Relative Indexes

Starch provides the further tool, however, that permits comparisons on a relative basis. This is in the form of his *"Adnorms Report,"* a compilation of average "Noted," "Seen Associated," and "Read Most" scores for advertisements by size, color combination, product group and publication. Comparing actual scores with these averages will subdue these variables and produce an index of relative effectiveness. The variables of seasonality (some advertisements are better read at certain times of the year) and page position, however, are still present.

Multiple Index Method

Perhaps the easiest way to determine indexes of relative performance is simply to compare an advertisement's actual "Noted," "Seen Associated," and "Read Most" scores with the average scores presented in *Adnorms Report*. The computation involves taking the actual readership score for men divided by the average score for men, plus the actual readership score for women divided by the women's average score, dividing this by two to get an average men-women relative score, and then multiplying by 100 to obtain an index of relative performance.

It should be remembered that indexes computed on this basis result in three indexes: one for "Noted," one for "Seen Associated," and a third for "Read Most." This becomes somewhat cumbersome. A certain advertisement may perform far below par on the "Noted" index, way above average on the "Seen Associated" index, and only average on the "Read Most" index. Of course, this provides valuable information on the component parts of the advertisement. The first case may indicate a poor attention getting device. The second would suggest that although the attention stopper was poor, it did have relevancy. The "Read Most" index might indicate average copy effectiveness, but how would one evaluate the over-all effectiveness of the advertisements? One solution might be to average the three indexes to obtain a final index, but this has the distinct disadvantage of not showing the flow of readers through the advertisement in relation to the initial audience attracted. It is deceptive because the final index may have a value higher than that of the "Noted" index. The only reliable way to use multiple indexes is to use each one separately.

Single Index Method

It was thought that perhaps advertisers could compute one index illustrating an advertisement's over-all effectiveness, and illustrating the reader flow through the advertisement. This would be accomplished by first computing the "Noted" index, which would tell total relative audience in which the advertisment had an opportunity to exert its influence. It is the universe. This index would then be factored by the actual average men-women percentage drop-off between "Noted" and "Seen Associated" scores, and then the actual average men-women percentage drop-off between "Seen Associated" and "Read Most" scores. It should be remembered that, after establishing the "Noted" relative index, any further computations under this

method are dependent upon the supposition that the index produced is not significantly different from the "Seen Associated" index on that level, or the "Read Most" index if carried still further. This is not entirely realistic, but it could be close enough to provide satisfactory results. If the supposition is correct, advertisers can compute a relative index of advertising effectiveness that shows the relative flow of readers through the advertisement in relation to the initially attracted audience.

Validity and Results of the Single Index Method

The approach to the problem was to compute the indexes by both methods, but only through "Seen Associated" scores. It was not carried through to the "Read Most" scores, since at the "Seen Associated" level conclusions could be reached. If the single index proves not valid at this level, neither would it have value on the final "Read Most" basis.

The October 13, 1956, *Saturday Evening Post* contained 92 advertisements over fractional half-page size. Of these, 58 were analyzed. The remaining 34 were omitted because "Adnorms Averages" were not available for their particular page sizes, color combinations or product classifications. The actual and "Adnorms Average" readership scores for the 58 were listed and indexes drawn up for the resulting "Noted," "Seen Associated," and "Factored Noted" groups. Through a correlation analysis, the attempt was made to determine if the factored index represented the same relative score as the "Seen Associated" index, and as suspected, this analysis produced a rather high correlation coefficient. It equalled .944 and would suggest that the factored index is not significantly different from the "Seen Associated" relative index. The standard error of the estimate, however, came to 29.92. This was considered too high and indicates that although the two indexes are correlated, they are dispersed to such an extent that a significant difference does exist between the two. Unfortunately, the factored index will not give a valid measure of an advertisement's performance.

The validity of readership measurements, particularly those supplied by Daniel Starch and Staff, is significant when used on a relative basis, but it cannot be accepted in absolute terms. The variables of page size, color, publication in which presented, and product classification can be equated, but the variables of page position and seasonality still remain.

It had been hoped that a technique could be developed whereby the two methods used by the Starch organization — the "Factored Noted" and the "Seen Associated" — would prove to supply essentially the same information, except that one would indicate reader flow through the advertisement in relation to the initially attracted audience. It was found, however, that a significant difference did exist between the two, at least as a result of the analysis of the 58 advertisements in the October 13, 1956, *Saturday Evening Post*. It can be concluded, therefore, that the most reliable data is still provided by the method whereby individual indexes are computed for each Starch score.

A STUDY OF
CONSUMER INSTALLMENT CREDIT

by

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Institute on Consumer Credit, Marquette University, June, 1957. Director of the Institute, Francis J. Calkins, Professor and Director of the Department of Finance, Marquette University.

During 1955 the amount of consumer installment credit outstanding rose $5.5 billion, or almost 25 per cent. This rapid growth was accompanied by a liberalization of credit terms, especially on the sale of new cars. It was on the heels of this sharp expansion that, at the direction of the President, the Chairman of the Council of Economic Advisors requested the Board of Governors of the Federal Reserve System "to undertake a broad study of the role of consumer installment credit in a growing economy, including arguments for and against renewal in some form of governmental authority to regulate credit in this important field."[1]

The basic issue involved was whether our present policy of general monetary control was adequate to prevent either inflation or deflation. To some economists it seemed that the general control mechanism should be supplemented by specific controls over special segments of the credit market, such as consumer credit. Although the report itself has been criticized for failing to take a position on the desirability or undesirability of reviving the authority to regulate consumer credit, it was never expected or intended that a research report could, by itself, settle such a question. As you all know, after review of the study, the Board of Governors of the Federal Reserve System has stated that it "believes that a special peacetime authority to regulate consumer installment credit is not now advisable."

In a way it is interesting that consumer credit was singled out for special attention last year. It is not certain that it deserved such popularity as a field that might be put under special controls. Two years prior to the study, consumer credit had exercised a beneficial effect on the economy, and in 1955 other types of credit probably contributed more to inflation than did consumer credit. Consumer installment credit was a strategic factor in the recovery from the

1. *Consumer Installment Credit,* Washington, D. C.: Federal Reserve Board, 1957, Vol. I, iii.

recession of 1954. Credit extensions rose in the early part of that year and thus preceded the improvement in general business activity by several months. However, as consumer credit continued to expand through 1955, its previous beneficial role was forgotten as fears were expressed that we were getting "too much" consumer credit. But those who expressed these fears tended to overlook the fact that increases in other forms of credit were much larger than increases in consumer installment credit. Corporate debt rose almost four times as much as consumer installment debt in 1955, and mortgage debt increased by almost three times as much. Nonetheless, it was consumer installment credit that was given special attention, and the result of that attention was an extensive investigation that provides a great deal of very valuable information for anyone who is involved in the field of consumer installment credit.

The report consists of four parts in six volumes. The first volume of Part I "presents an integrated study of installment credit processes and issues of regulation" and the second volume is "composed of six supplementary reports dealing with specialized aspects of installment credit or of its regulation."[2] Both volumes were prepared by the research staff of the Federal Reserve System. The second part (another two volumes) is composed of a set of papers prepared by various university scholars under the auspices of the National Bureau of Economic Research. The third part (one large volume) is a compilation and digest of opinions, chiefly of those in the industry, on installment credit regulation. Probably many of the companies with which you are associated are represented in this volume. The fourth part — Financing New Car Purchases — summarizes the findings of a national survey of individuals who bought new cars in 1954 and 1955. Since automobile credit plays such a very important role in the overall consumer credit picture, this article is directed primarily toward the findings of Part IV.

You will recall that 1955 was marked by an almost explosive increase in the sale of new cars. As shown by the survey, some four-fifths of the increase from 1954 to 1955 in the number of new cars purchased came from credit sales. The growth in auto credit was accompanied by an easing of credit terms that constituted a major structural change. The survey was an attempt to "reconstruct the financial facts, the consumer attitudes, and the interplay of competition among lenders as they reacted to the changes in credit market conditions and to the intense struggle among the giants for first place in the auto industry."[3]

The findings are based on a national survey made in the middle of 1956 of lenders' records of 5,700 credit purchases of new cars in 1954 to 1955, and also on personal interviews with about 3,000 credit buyers and 1,600 cash buyers. Those in the consumer credit business will discover that many of the findings are not news — that they confirm beliefs or experiences. However, consumer credit markets are

2. *Ibid.*

3. *Ibid.*, Vol. VI, preface.

localized, and you may sometimes find that practices common in your area of operations are not characteristic of the country as a whole. In addition, you who are skilled lenders will find a good deal of information that you did not previously have which may influence your lending policies.

Probably one of the most fruitful and important areas of investigation concerned the credit terms on installment contracts. This is a subject on which there has been relatively little reliable information. It is of significance for several reasons. First of all, changes in maturities have had an important cyclical influence in our economy. In the first volume of the study it is pointed out that the major cyclical effect of consumer credit has been to add fuel to booms. In four out of the past five expansion periods, longer maturities and lower down payments have been an important stimulus to the upswing.

Second, the lengthening of maturities has contributed greatly to the long-run growth of consumer installment credit. As noted in the study, the average rate of growth of consumer installment debt over the past four decades has been 10 per cent per annum; in 1955 the level of outstandings was thirty times the 1920 level. Over the same period the average maturity on automobile contracts more than doubled. In other words, if the average maturity had not lengthened, the level of auto credit outstanding at the end of 1955 would have been reduced by more than one-half, other things remaining constant.

Third, longer maturities have made it possible for people to buy more expensive cars than they otherwise could have without committing themselves to a greater drain on their incomes. From early 1954 to the end of 1955, the average maturity on new car contracts lengthened from about 22 to about 29 months, according to one sample.[4] This offset the high prices paid for cars and the larger dollar finance and insurance charges, so that the average monthly payment (median) remained constant at about $72, according to the *Survey of New Car Buyers.*

Fourth, it is likely that the liberalization of terms widened the market for new cars. In fact, it may well have been "cheaper" in terms of monthly payments to buy a new car on a 36-month term than a late model used car on an 18- or 24-month term. Thus, lower income buyers, who might otherwise have bought used cars, were probably drawn into the new car market. Of credit buyers of new cars in 1955, 30 per cent had incomes under $5,000; two-thirds had incomes of less than $7,500. Yet credit buyers paid an average true or effective price (after taking out the "fluff" or over-allowance on trade-ins) of close to $2,500, or an average price equal to at least one-third of the annual incomes of two-thirds of all credit buyers. This surprisingly broad market for new cars was made possible only by the use of terms suited to the needs of buyers and wise and careful selection of credit risks by finance companies, banks and other financial institutions.

4. *Ibid.*, Vol. I, 125.

Let us now consider whether a further lowering of down payments and lengthening of maturities is likely to add fuel to the next boom, to bolster a continued 10 per cent annual growth in consumer credit, to enable people to buy more and more expensive cars and to widen the market further for new cars. Will the 1955 experience be repeated? Throughout the 1954-1955 period, maturities on new car contracts lengthened steadily and down payment ratios fell steadily. The proportion of contracts with maturities of thirty months or more about doubled from the first half of 1954 to the second half of 1955, rising from one-third to two-thirds of all contracts written. True or effective down payment ratios of less than 25 per cent of the value of the car purchased were found in less than one-third of the contracts written in the first half of 1954, but were characteristic of almost half of new car contracts in the last half of 1955.

It is sometimes alleged that on individual contracts dealers or lenders offset a long maturity by requiring a high down payment, or vice versa. The survey shows quite the contrary: long maturities tended to be associated with low down payment ratios and short maturities with high down payment ratios. In the second half of 1955, on contracts with an effective down payment ratio of one-fourth or less, 74 per cent had maturities of thirty months or more; on contracts with an effective down payment ratio of one-half or more, only 11 per cent had maturities of thirty months or more.

Some of those economists who said we had "too much" consumer credit in 1955 argued that we were building a weak credit structure because the more liberal contracts were going to the lower income buyers. The survey, however, shows that in 1955 *all* income groups took on a higher proportion of contracts with longer maturities and low down payment ratios. In both 1954 and 1955 buyers with incomes of $7,500 and over had a smaller proportion of the long-maturity, low down payment contracts than did buyers with lower incomes; but over the two-year period upper income buyers more than doubled the proportion of 36-month contracts which they signed, just as did those in the middle and lower income groups. Declines in down payment ratios also occurred in contracts of all income groups from 1954 to 1955.

Other evidence that liberal contracts were not concentrated in weak hands — and that lenders knew their business — is found in the repayment experience on installment contracts. By the middle of 1956 about one-tenth of 1955 credit buyers had already disposed of their cars, usually in connection with another purchase. Most of these buyers (70 per cent) had paid off their debts ahead of time. Ninety-nine per cent of the buyers who were still in debt were meeting their payments on schedule or doing better than the schedule required, and about one-half had reduced their debt to $920 or less. Repayment experience was excellent, no matter what the original maturity on the contract. Furthermore, pre-payments and payments on schedule were characteristic of all income groups and were not restricted to those in the upper income brackets.

We have all heard the arguments of various lenders, each asserting

that the other led the way to easier terms. It is undoubtedly true that in some localities the first to liberalize was a commercial bank, but in others it was a major sales finance company and in still others it was a local or regional sales finance company. The data from the *Survey of New Car Buyers* show that in the nation as a whole, with its network of local automobile credit markets, all types of lenders participated equally in the progressive liberalization of terms. No one type of lender led the way.

In both 1954 and 1955 the terms on direct loans made by banks for the purchase of new cars were less liberal than the terms on contracts purchased from dealers by banks or sales finance companies. This is related in part to the fact that a larger proportion of direct loans made by banks went to upper income buyers than was the case of contracts purchased by sales finance companies. As we saw earlier, these higher income buyers as a group were able to undertake contracts with high down payment ratios and shorter maturities than buyers in lower income groups. In general, the maturity distribution of paper purchased by banks and sales finance companies was quite similar; although, banks were somewhat less liberal on down payment ratios.

It is particularly noteworthy that about 88 per cent of new car contracts written in 1955 carried an effective annual finance charge of less than 13 per cent, or less than an add-on rate of about 7 per cent. Only 4 per cent of the contracts were written at an add-on rate in excess of about 8.1 per cent. State agencies, senate committees, social workers and home economists are likely to see only the contracts which give your business a black eye. Here is sound and concrete evidence that across the nation the vast majority of new cars was financed at reasonable rates.

In both years the finance rates charged by banks on direct loans were somewhat lower than those charged buyers on paper purchased from dealers by banks and sales finance companies. The median annual effective rate charged by banks on direct loans for the purchase of automobiles in 1955 was 9.3 per cent, or about 2 percentage points below the median annual rate charged by sales finance companies and 1.5 percentage points below the median rate charged by banks on purchased paper. In larger part the lower rate on direct loans is explained by the absence of dealers' reserves; in part it is also justified by the better grade of risk which banks can select on this type of loan.

Car insurance was included in about one-half of the contracts written in 1955 and credit life insurance in about two-fifths of the contracts. Both types of insurance were found more commonly in contracts written by sales finance companies than by banks. The frequency of credit life insurance increased noticeably from 1954 to 1955.

What of the future? How much further can liberalization of terms go? There is a fairly effective automatic check to further substantial liberalization of down payment ratios. This has been evident from past experience, in that maturities have lengthened more than down payment ratios have lowered. Lenders are aware that their delin-

quency and repossession rates are higher than average for paper on which they obtain below standard down payments. Further lowering of down payment ratios is not in the interest of lenders, and it is doubtful that we shall see further substantial liberalization on that score.

But what of maturities? Will individual lenders or groups of lenders be able to stop a shift towards longer maturities? It seems unlikely. Our study of 1954-1955 period shows clearly, you will recall, that no one type of lender was able to buck the tide when competitors made more liberal terms available to auto buyers through dealers. We also saw that the easier terms appealed to all income groups. Consequently, we cannot expect that further increases in individual income levels will lessen the demand for longer terms; although, there may be some tendency for banks to get a larger share of the market via direct loans. Nor do delinquencies and repossessions provide an automatic brake to longer maturities. Investigation elsewhere in the study does not show any clear correlation of delinquencies and repossessions with contracts carrying longer maturities.

There seem to be two main possible checks to longer maturities. First, although the number of repossessions may be no higher, the lenders' exposure to loss in the case of repossession is increased by long maturities because the buyer has accumulated an equity in the car at a slower pace than if the contract carried a shorter maturity. Second, as maturities lengthen, the percentage reduction in monthly payments becomes progressively smaller. In other words, buyers will not reduce their monthly payments proportionately as much when they go from 36-month to 42-month terms as they did when they move from 30- to 36-month terms. Thus, they now have less of an incentive to seek the longer terms than they did previously. There may also be some hesitation on the part of buyers to undertake longer maturities because the finance charge increases and becomes a larger and larger proportion of the total debt.

In general, however, the built-in barriers to further lengthening of maturities are not as effective as those which may prevent further reductions in the down payment ratios. Therefore, it seems likely that some additional lengthening of maturities will allow trading up to more expensive cars and widening of the market for new cars; although, quite probably, it will not be to the same extent that occurred in 1955.

On the other hand, the economic impact of any further lengthening of maturities upon a cyclical upswing and upon the long-run growth in consumer installment credit seems almost certain to be less in the future than it has been in the past. The effect on credit outstandings of a change in maturities is felt only while the change is taking place. Once a new structure of maturities is established, there is no further impact from this source until the next structural change. When we move from 12- to 24-month maturity, we increase the dollar amount of credit outstanding by 100 per cent, other things remaining constant. When we move from 24 to 36 months on new car contracts, we permit a 50 per cent growth rate again; after we have attained a 36-month

basis, we would have to lengthen maturities to 54 months. This certainly seems highly unlikely.

Thus, the 1955 new car market was unique in the sense that we probably will not again see a liberalization of credit terms of such economic significance. This will make consumer installment credit less of a destabilizing factor in future boom periods than it has been in the past. This weakens the case of those who will seek to control its use by government regulation.

WATCH WISCONSIN

A Comparative Analysis of Retail Sales Trends

by

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Total retail sales have continued slightly above year-ago levels, with the August dollar volume up approximately 2%. However, recent gains reflect the continued rise in prices, rather than gains in physical volume.

So far this year, major gains have been traceable to the soft goods lines — especially food stores (helped by the increase in super market sales of non-food items); drug stores (in which the tranquilizer boom has played an important part); and gasoline sales (reflecting more cars on the road).

In contrast, appliances have suffered real losses, with the first five months of 1957 presenting a rather dismal picture compared with a year ago. Electric dryers were down 28%; gas dryers down 12%; electric ranges down 19%; gas ranges down 10%; washers down 23%; television sets down 24%; refrigerators down 13%; and dishwashers down 19%. In fact, the only important appliances showing gains so far this year are radio (excluding cars) and high fidelity equipment.

Although auto sales show a gain of 5% in dollar volume, the number of cars sold is 2½% below the 1956 level and hardly can be expected to exceed the year-ago level during the remainder of the year.

Sales for the first four months of 1957 compared with the same period of 1956 were as follows:

	Per Cent Change
Total retail sales	4.9
Gasoline service stations	9.1
Apparel	6.6
Food	6.4
Automotive	6.3
Drug and Proprietary	5.4
General Merchandise	1.8
Furniture and Appliances	1.5
Eating and Drinking Places	0.9
Lumber, Building and Hardware	—2.2

Among the states currently showing gains in total retail sales exceeding the national average are Ala. (4.5%); Ariz. (7.2%); Calif. (4.4%); Fla. (8.3%); N. M. (8.4%); Ore. (4.6%); and Utah (6.3%).

Cities currently reporting gains of 10% to 18% relative to a year-ago levels are San Diego, San Jose and Sacramento, Calif.; Middletown, Conn.; Savannah, Ga.; Orlando and St. Petersburg, Fla.; Lawrence, Mass.; Florence-Sheffield, Ala.; and Phoenix, Ariz.

*Monthly Index of Retail Sales vs. Year Ago

	1957 vs. 1956		
	Aug.	June	May
National Average	102.0	101.0	104.0
MAJOR CITIES			
San Diego	120.0	120.9	124.6
Pittsburgh	107.2	107.7	111.4
New Orleans	104.9	103.9	106.3
Baltimore	103.0	98.6	99.5
Cleveland	102.9	101.9	104.6
New York City	102.8	99.8	101.3
Houston	102.5	104.2	107.5
San Francisco	102.4	101.0	104.9
Los Angeles	102.4	100.0	102.8
MILWAUKEE	102.0	100.6	105.4
Detroit	101.9	99.2	100.7
Atlanta	100.7	97.9	101.0
Dallas	100.6	100.2	101.8
Chicago	100.2	98.2	101.2
Boston	99.8	95.6	98.9
Kansas City	99.7	99.6	102.5
Washington, D. C.	99.6	95.1	97.4
Minneapolis	99.5	100.7	103.3
Buffalo	99.3	103.2	106.7
St. Louis	97.9	97.4	100.0
Philadelphia	97.7	97.2	101.0
Cincinnati	96.6	96.4	99.8
Other Wisconsin and Illinois Cities			
Appleton	112.0	115.4	120.4
Beloit-Janesville	105.3	103.8	104.9
Superior	104.2	108.1	111.0
Sheboygan	103.3	104.7	108.4
Green Bay	101.8	102.8	107.4
Racine	100.1	98.9	101.5
Madison	96.8	97.2	100.0
Oshkosh	96.6	95.8	98.2
La Crosse	96.4	96.6	101.0
Kenosha	92.4	91.8	94.4
Moline-Rock Island	106.5	103.1	105.2
Rockford	102.2	99.7	103.4
Springfield	102.0	100.9	103.6
Bloomington	101.9	97.8	100.5
Champaign-Urbana	100.3	100.3	103.5
Decatur	99.3	97.0	101.2
Peoria	98.8	97.2	100.7

*Source of Data: Sales Management.

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